

Top Secret



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LIBYA-EGYPT: PRESIDENTS QADHAFI AND SADAT REPORTEDLY ARE CONSIDERING RESTRICTING THE PRODUCTION OF US OIL COMPANIES IN LIBYA IN AN EFFORT TO BRING ABOUT A CHANGE IN US POLICY IN THE MIDDLE EAST.

LIBYA'S RULING REVOLUTIONARY COMMAND COUNCIL {RCC} REGARDS PETROLEUM AS ITS ONLY TOOL FOR INFLUENCING US POLICY IN THE MIDDLE EAST. RCC MEMBERS, HOWEVER, SERIOUSLY DISAGREE OVER SACRIFICING OIL REVENUES TO ACHIEVE ARAB MILITARY AND POLITICAL GOALS. QADHAFI AND SOME OF HIS SUPPORTERS HAVE FREQUENTLY PUSHED FOR NATIONALIZATION OF OIL COMPANIES, WHILE PRIME MINISTER JALLUD AND OTHER KEY COUNCIL MEMBERS FAVOR MEASURES THAT FALL SHORT OF JEOPARDIZING LIBYA'S OIL INCOME. QADHAFI'S PLANS TO RESTRICT OIL PRODUCTION WOULD THUS MEET WITH OPPOSITION IN THE COUNCIL, BUT THE FORCEFUL LIBYAN LEADER, WHO HAS OVERRIDDEN HIS COLLEAGUES ON MANY IMPORTANT ISSUES, MAY BE ABLE TO PREVAIL. QADHAFI MAY ANNOUNCE A NEW OIL POLICY ON 1 SEPTEMBER, THE ANNIVERSARY OF THE LIBYAN REVOLUTION.

IF LIBYA ASSUMES CONTROLLING INTEREST IN ALL US COMPANIES THROUGH PARTIAL NATIONALIZATION, ALL OIL PRODUCTION IN THE COUNTRY WOULD PROBABLY BE INTERRUPTED. LIBYA CANNOT OPERATE ITS OIL INDUSTRY,

AND IT IS CURRENTLY HAVING SERIOUS DIFFICULTIES WITH THE FORMER BRITISH PETROLEUM INSTALLATIONS NATIONALIZED LAST DECEMBER. OTHER MAJOR OIL PRODUCERS COULD NOT BE EXPECTED TO RESTRICT PRODUCTION IN SUPPORT OF LIBYA'S ACTIONS, WHICH IN THEMSELVES WOULD NOT CAUSE SERIOUS PROBLEMS IN THE WORLD OIL SUPPLY. THERE IS AN OVERSUPPLY OF TANKERS AND AN EXCESS OF OIL PRODUCTION CAPACITY ELSEWHERE IN THE WORLD. IF LIBYA DID NOT NATIONALIZE AND ONLY LOWERED PRODUCTION QUOTAS, THE COMPANIES PROBABLY COULD ADJUST BECAUSE MOST OF THEM ARE PRODUCING AT RATES BELOW THOSE CURRENTLY AUTHORIZED BY THE GOVERNMENT.

PRESIDENT SADAT AND OTHER EGYPTIANS HAVE RECENTLY SPOKEN PUBLICLY OF PUTTING ECONOMIC PRESSURE ON THE US TO FORCE A CHANGE IN ITS MIDDLE EAST POLICY. CAIRO HAS YET TO EMBARK ON AN INTENSIVE CAMPAIGN AGAINST WASHINGTON, HOWEVER.

SADAT REPORTEDLY STILL HARBORS HOPE THAT AS A RESULT OF THE SOVIET WITHDRAWAL FROM EGYPT, THE US, AS WELL AS THE UK AND FRANCE, WILL WORK VIGOROUSLY TO BREAK THE ARAB-ISRAELI STALEMATE. CAIRO RETAINS THE OPTION OF ATTEMPTING TO MOUNT A CONCERTED ARAB CAMPAIGN AGAINST US ASSETS IN THE ARAB WORLD. BUT SADAT WOULD BE HARD PRESSED TO GAIN THE COOPERATION OF SUCH ARAB STATES AS SAUDI ARABIA. DURING AN INTERVIEW ON 4 AUGUST, KING FAYSal REJECTED THE IDEA OF USING OIL AS A WEAPON AGAINST THE US AS A FUTILE GESTURE.

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